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RUEHBJ/AMEMBASSY BEIJING PRIORITY 0365  
RUEHRL/AMEMBASSY BERLIN PRIORITY 0175  
RUEHBR/AMEMBASSY BRASILIA PRIORITY 0030  
RUEHBU/AMEMBASSY BUENOS AIRES PRIORITY 0016  
RUEHBY/AMEMBASSY CANBERRA PRIORITY 0132  
RUEHJA/AMEMBASSY JAKARTA PRIORITY 0228  
RUEHLO/AMEMBASSY LONDON PRIORITY 2904  
RUEHME/AMEMBASSY MEXICO PRIORITY 0188  
RUEHMO/AMEMBASSY MOSCOW PRIORITY 0701  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0449  
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C O N F I D E N T I A L SECTION 01 OF 03 RIYADH 001629

SIPDIS

DEPT FOR NEA/ARP, EEB (PDAS NELSON), EEB/OMA (MARLENE SAKAUE AND ALEX WHITTINGTON), AND NEA/RA  
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TAGS: [ECON](#) [EFIN](#) [SA](#)

SUBJECT: THE SAUDI PUBLIC POSITION ON G-20 SUMMIT ISSUES

REF: A. SECSTATE 114420

- [1](#)B. RIYADH 1607
- [1](#)C. RIYADH 1572
- [1](#)D. RIYADH 1507
- [1](#)E. RIYADH 1488
- [1](#)F. RIYADH 1353
- [1](#)G. JEDDAH 456

Classified By: Deputy Chief of Mission David Rundell for reasons 1.4 (b) ) and (d)

[1](#)1. (C) In response to the specific questions in ref A, Post provides the following answers concerning Saudi attitudes towards the November 15 G-20 financial summit:

a. (C) Based on public comments made by host government officials, what are the country's likely objectives in attending the summit?

To enhance the Kingdom's status as a significant yet moderate force in international diplomacy, with particular emphasis on their role in the region. The Saudis clearly would like to expand their presence at future summits and be consulted when international financial issues emerge in the future.

b. (C) Are there particular desired outcomes that officials have identified publicly that they hope to attain?

No specific outcomes have been publicly identified. However, the King has been repeatedly quoted in the Arabic-language press describing the current financial crisis as a "covert war" whose aim is to reduce the financial clout of Arab countries. Given these comments, it seems likely the King

sees his role at the conference as one of ensuring that the Arab countries' financial power vis-a-vis the rest of the world is not eroded by whatever new financial system emerges.

c. (C) Again based on public information, what recommendations or reforms might the country make?

Based on a wide-range of recent news articles, it is possible the Saudis will suggest that the international financial system adopt more aspects of Islamic banking, particularly that banks should share profit / risk with depositors, an end to the idea of &too big to fail,8 and a significant curtailment in the use of derivatives.

d. (C) What are the country's greatest concerns about the current financial crisis?

Saudi Arabia,s most significant concern in the current financial crisis is that it will deepen into a significant global recession, thus further reducing the price of oil, their chief export, on the global market. We have already seen a drop of more than 55% in the price of oil since its high point in July.

As a secondary concern, the Saudis are paying close attention to domestic liquidity, as high demand for project finance and speculation on the Saudi riyal was already driving up interbank lending rates prior to the current crisis. However, the Saudi Arabian Monetary Agency (SAMA), the

RIYADH 00001629 002.2 OF 003

Kingdom,s central bank, has already taken concrete steps to address this issue, including lowering the key lending rate, lowering the reserve requirement, guaranteeing deposits, and providing banks with direct cash injections. These efforts have been rewarded with a drop in the interbank rate in recent days. It is unlikely this will play a major role in Saudi thinking.

Senior Saudi officials have stressed to us that their overall financial situation is sound, but note that credit is getting "tight." Some in the business community have also expressed concern that this may lead to a delay in the completion of major infrastructure projects. See ref C and ref F for further details.

Beyond the direct effects on the Kingdom, Saudis most often express concern for the real estate market in the United Arab Emirates. A lot of Saudis have invested heavily in the UAE property market and any significant decline there would definitely have an effect on wealthy individuals here. Nevertheless, it is unlikely this would have an impact on either the vast majority of the population or the public finances. See ref G for more details.

e. (C) Based on publicly available information, what issues are likely to be foremost on the leader's mind?

i. The price of oil.

ii. Seeing that individuals and businesses that were responsible for unscrupulous lending are held accountable for their actions. This has been mentioned recently in Arabic-language newspaper articles and in private meetings between USG and SAG officials. See ref B for further details.

f. (C) Please provide specific information on the most important impacts of the financial crisis on the country's financial sector:

Domestic lending to the corporate sector, and liquidity in general, has tightened further since the beginning of the financial crisis; but not as much as in other parts of the world. The reasons for this are two-fold: First, credit in the Kingdom was already tight for the reasons explained above and in ref F. Second, SAMA acted quickly enough once it became apparent the global financial crisis would affect

liquidity in Saudi Arabia to mitigate the effects of this spillover. To date no financial institutions have failed or experienced significant problems. It is generally accepted that the Saudi government will not allow one of their banks to fail; and they have explicitly guaranteed all deposits in Saudi banks.

g. (C) What initiatives has the country taken in response to the financial crisis?

To date the Saudi government (SAG) has taken the following steps:

- i. Lowered the demand deposit reserve requirement from 13% to 10%.
- ii. Lowered SAMA's repurchase rate from 5.5% to 5.0%, the first decline in the rate in more than 4 years.
- iii. Explicitly guaranteed all deposits in all banks for the

RIYADH 00001629 003 OF 003

first time ever.

- iv. Provided the equivalent of \$8 billion in direct cash injections to their banks, the first time they have provided direct injections in more than 10 years.

Though the domestic stock market has dropped significantly since the beginning of this crisis, historically it has been highly volatile and the SAG does not appear concerned about this recent decline. See ref D for more details on the Saudi capital markets.

h. (C) How has the outlook for growth, inflation, current account, exchange rate, and budget deficit changed?

The outlook on each of these factors has changed little as a result of the financial crisis. Growth, the current account surplus, and the budget surplus have shrunk slightly for 2008 as a result of the global recession and the drop in oil prices, with a larger drop expected in 2009. Nevertheless, Saudi Arabia will likely have both a current account surplus and a budget surplus in 2009 barring a further significant decrease in the price of oil.

Inflation has declined slightly, but remains high (approximately 10%) for the Kingdom when compared to its historic average of less than 2%. This decline has been in response to global decreases in the price of food and is probably not tied to the financial crisis. More details on inflation in the Kingdom can be found in ref E. The exchange rate between the Saudi riyal and the U.S. dollar is fixed at 3.75.

12. (U) For further information on questions addressed in this message, Post's point of contact is Economic Officer Christopher M. Newton at NewtonCM2 (at) state.gov or (country code 966) 1-488-3800 extension 4097.

RUNDELL